

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-6 Inspection Report

Gardez Hospital: After almost 2 Years,
Construction Not Yet Completed because of
Poor Contractor Performance, and
Overpayments to the Contractor Need to Be
Addressed by USAID



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SIGAR

Special Inspector General for
Afghanistan Reconstruction

WHAT SIGAR REVIEWED

In January 2008, the U.S. Agency for International Development (USAID) entered into a \$57 million cooperative agreement with the International Organization for Migration (IOM) to implement the Construction of Health and Education Facilities program. The program's objective was to help increase access to healthcare for Afghan citizens through the design and construction of hospitals and mid-wife training centers throughout Afghanistan, including a 100-bed hospital in the town of Gardez, Paktiya province.

In May 2010, IOM awarded a contract to Sayed Bilal Sadath Construction Company (SBSCC), an Afghan company, for \$13.5 million to build the new Gardez hospital. The contract's original November 24, 2011, completion date was extended to June 30, 2013, and its value increased to \$14.6 million. In April 2011, USAID awarded a contract to International Relief and Development, Incorporated (IRD) for nearly \$97 million—a follow-on to an existing contract—to provide independent quality assurance services for ongoing and planned design, construction, and maintenance projects, including Gardez hospital. In an April 2013 audit report on health services in Afghanistan, SIGAR noted that the Afghan government may not be able to sustain the new Gardez hospital once it is completed and that the new hospital's annual operation and maintenance costs could exceed five times the annual operating costs for the hospital it will replace.

SIGAR conducted its inspection on November 25, 2012, and assessed (1) the extent to which construction had been completed, and (2) whether adequate oversight was being provided to ensure that the terms of the cooperative agreement and contract were being met. SIGAR conducted this inspection from September 2012 through September 2013.

October 2013

Gardez Hospital: After almost 2 Years, Construction Not Yet Completed because of Poor Contractor Performance, and Overpayments to the Contractor Need to Be Addressed by USAID

SIGAR 14-6 Inspection Report

WHAT SIGAR FOUND

Construction of the new 100-bed hospital in Gardez is currently about 23 months behind its original schedule. In March 2011, the U.S. Agency for International Development (USAID) Office of Inspector General reported that facilities being constructed under the Construction of Health and Education Facilities program—including Gardez hospital—had fallen significantly behind schedule. During construction, the International Organization for Migration (IOM)—USAID's implementing partner for the program—granted the construction contractor five extensions through June 30, 2013, but when a sixth extension to October 31, 2013 was requested, IOM terminated the contract for failure to perform. According to USAID, the ability to complete construction of the Gardez hospital has been seriously hampered by the facility's remote location and by an active insurgency. USAID has granted IOM an extension until December 31, 2013, to complete the project. Because the facility was largely incomplete at the time of our inspection, we could not thoroughly assess the quality of construction.

SIGAR also found that IOM did not have sufficient internal controls to detect overpayments—of at least \$507,000—to Sayed Bilal Sadath Construction Company (SBSCC), which need to be returned to the U.S. government. In one instance, SIGAR found that IOM paid the contractor \$300,000 for 600 gallons of diesel fuel—a cost of \$500 per gallon. According to IOM officials, the market price in Afghanistan for diesel fuel should not exceed \$5.00 per gallon. As a result, with a proper invoice, the fuel charge should not have exceeded \$3,000. In another instance, IOM paid \$220,000 for an automatic temperature control device that should have cost between \$2,000 and \$10,000. IOM could not provide us with a vendor invoice for either of these payments. USAID did not discover the overpayments and reimbursed IOM for these unwarranted costs.

WHAT SIGAR RECOMMENDS

SIGAR recommends that the USAID Mission Director (1) seek reimbursement from IOM of the \$507,000 in overpayments for diesel fuel and temperature control devices; and (2) conduct a detailed financial audit of the costs associated with construction of Gardez Hospital to determine whether there are additional overpayments that need to be returned to the U.S. government.

In commenting on an earlier draft of this report, USAID concurred with the second recommendation, and stated that it intends to conduct a financial audit of the costs associated with this activity. USAID also stated that, pending the results of this audit, it would recover any contractor payments, if appropriate, in accordance with SIGAR's first recommendation.



Gardez
Hospital

Source:
SIGAR,
November 25,
2012



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 23, 2013

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development

Mr. William Hammink
Mission Director for Afghanistan, U.S. Agency for International Development

This report discusses SIGAR's inspection results of the new 100-bed hospital currently under construction in the town of Gardez, Paktiya province. This report recommends that the Mission Director for Afghanistan, U.S. Agency for International Development (USAID) (1) seek reimbursement of \$507,000 in identified contractor overpayments, and (2) conduct a detailed financial audit to determine whether there are additional contractor overpayments that need to be returned to the U.S. government.

In commenting on an earlier draft of this report, USAID concurred with the recommendation to conduct a detailed financial audit to determine whether there are additional contractor overpayments that need to be returned to the U.S. government. USAID also noted that, pending the results of this financial audit, it will take action, if appropriate, to recover any contractor overpayments. We commend USAID for its prompt planned action that will resolve the recommendations, and we request that USAID provide us a copy of the completed financial audit report to fully close out the recommendations.

SIGAR conducted this inspection under the authority of Public Law No. 110-181, as amended; and the Inspector General Act of 1978, as amended; and in accordance with the *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency.



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS & ACRONYMS

| | |
|-------|--|
| IOM | International Organization for Migration |
| IRD | International Relief and Development, Incorporated |
| SBSCC | Sayed Bilal Sadath Construction Company |
| USAID | U.S. Agency for International Development |

The U.S. Agency for International Development (USAID) funded the construction of Gardez hospital through the Construction of Health and Education Facilities program. This program was implemented to help address the healthcare needs of Afghan citizens through the construction of new hospitals in Afghanistan. The program also was designed to provide training for local health personnel through the construction of three midwife training centers and up to nine provincial teacher training facilities.

The new 100-bed Gardez hospital is being built to replace an existing 70-bed hospital in the town of Gardez, Paktiya province. In an April 2013 audit report on health services in Afghanistan, we noted that the Afghan government may not be able to sustain the new Gardez hospital once it is completed.¹ We also found that the new hospital's annual operation and maintenance costs could exceed five times the annual operating costs for the hospital that it will be replacing. For example, the existing Gardez hospital has annual operating costs, including generator fuel costs, of about \$611,000, and USAID estimated that the annual generator fuel costs alone for the new hospital could be as much as \$3.2 million.

For this inspection, we assessed (1) the extent to which construction had been completed, and (2) whether adequate oversight was being provided to ensure that the terms of the cooperative agreement and contract were being met.

We conducted this inspection in Kabul, Afghanistan, and at the Gardez hospital construction site in Paktiya province from September 2012 through September 2013, in accordance with *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency. Appendix I contains a more detailed discussion of our scope and methodology.

BACKGROUND

On January 19, 2008, USAID entered into a 36-month, \$57 million cooperative agreement (306-A-00-08-00512-00) with the International Organization for Migration (IOM) to implement the Construction of Health and Education Facilities program.² On May 25, 2010, IOM awarded Sayed Bilal Sadath Construction Company (SBSCC)³ a \$13.5 million contract (CHEF10-0002-CN) to construct a new hospital in the town of Gardez, which was scheduled for completion on November 24, 2011.⁴ Through a series of amendments, the contract's completion date was extended to June 30, 2013, and its value increased to \$14.6 million.

On April 20, 2011, USAID awarded a contract (306-C-00-11-00512-00) to International Relief and Development, Incorporated (IRD) for nearly \$97 million to provide quality assurance services in support of the USAID Afghanistan's Office of Infrastructure, Engineering, and Energy for ongoing and planned design, construction, and maintenance projects. This contract has a base year and 4 option years through April 17, 2016, and includes Gardez hospital in its scope. This is a follow-on contract for IRD; the previous contract (GS-10F-0034S; 306-M-00-06-00505-00), worth approximately \$58 million, covered the period March 2006 through April 2011.

¹ SIGAR Audit 13-9, *Health Services in Afghanistan: Two New USAID-Funded Hospitals May Not Be Sustainable and Existing Hospitals Are Facing Shortages in Some Key Medical Positions*, April 29, 2013.

² Unlike a contract where the principal purpose of the instrument is to acquire property or services for the direct benefit or use of USAID or another U.S. government entity, a cooperative agreement may be used when the principal purpose of the relationship is to transfer money, property, services, or anything of value to the recipient in order to carry out a public purpose of support authorized by federal statute.

³ Sayed Bilal Sadath Construction Company was established in 2000 and registered with the Ministry of Economics of the Islamic Republic of Afghanistan in 2003. The firm was established to participate in the rehabilitation and development of Afghanistan through the provision of construction, design, and survey services.

⁴ In September 2008, IOM awarded a contract to Sadat Mohammad Construction Company for Gardez hospital's first phase of construction. The company worked from September 2008 to June 2010, building a boundary wall and deep water well for the hospital.

Gardez hospital, when completed, will consist of a single-story 100-bed structure made up of separate “wings” connected by corridors (see photo 1). The wings will contain, among other things, an administration area, conference rooms, emergency ward, rehabilitation ward, pharmacy, and blood laboratory. In addition, the hospital will have separate wards for male and female surgery. It will also have parking facilities, a potable water system with two water towers, a water well, and a wastewater treatment system. The design documents call for the hospital’s power to be supplied by two diesel generators—primary and standby—with the fuel stored in four 16,000 gallon underground tanks.

Photo 1 - Gardez Hospital under Construction



Source: SIGAR photo, November 25, 2012

GARDEZ HOSPITAL IS BEHIND SCHEDULE

The new 100-bed Gardez hospital is currently about 23 months behind its original completion date of November 24, 2011. On March 27, 2011, USAID’s Inspector General issued a report, stating that facilities being constructed under the Construction of Health and Education Facilities program—including Gardez hospital—had fallen significantly behind schedule.⁵

At the time of our November 25, 2012, inspection visit, IOM officials told us the hospital was 66 percent complete. We observed during our site visit that the building was still a “shell” with a partially completed roof, and the construction of major items—such as the electrical; heating, ventilation, and cooling; water; and wastewater treatment systems—had not been completed. Therefore, we were unable to thoroughly assess the quality of construction at the site.

During the course of construction, the completion date was extended five times, with the fifth extension establishing a June 30, 2013, completion date. USAID officials in Afghanistan stated that when it became apparent that SBSCC could not meet this date, the contractor requested a sixth extension to October 31, 2013. However, IOM officials told us that they rejected this request due to the contractor’s failure to perform and terminated SBSCC’s contract in July 2013. According to USAID, the ability to complete construction of the Gardez hospital has been seriously hampered by the hospital’s remote location and an active insurgency. USAID has granted IOM an extension until December 31, 2013, to complete the project.

WEAK INTERNAL CONTROLS RESULTED IN OVERPAYMENTS

IOM did not establish adequate internal controls for contract payments it made to SBSCC. We found that IOM overpaid the contractor by at least \$507,000 (or about 3.5 percent) of the total contract value. USAID’s cooperative agreement with IOM specifies that it will be reimbursed for costs incurred in carrying out the purposes of the grant that are reasonable, allocable, and allowable. In addition, the construction contract states that the contractor, SBSCC, should submit invoices with its claims for progress payments. We identified the following overpayments to the contractor:

- \$300,000 for 600 gallons of diesel fuel, or \$500 per gallon, to start up and test the Gardez hospital generators. IOM was unable to provide us with a vendor invoice for the fuel. According to IOM officials, the market price in Afghanistan for diesel fuel should not exceed \$5.00 per gallon. As a result, with a proper invoice, the fuel charge should not have exceeded \$3,000.
- \$220,000 for an automatic temperature control device.⁶ IOM was unable to provide us with a vendor invoice for the device. According to IOM officials, the cost of a temperature control device should

⁵ USAID Inspector General Audit F-306-11-002-P, *Audit of USAID/Afghanistan’s Construction of Health and Education Facilities Program*, March 27, 2011, noted reasons for the delay, including delays in completing designs, security threats, limited availability of skilled labor, limited availability of quality materials, land title issues, weather, and work interruptions.

range from \$2,000 to \$10,000. Using the highest possible cost—\$10,000—we determined that IOM overpaid the contractor by at least \$210,000.

IOM officials did not identify either of these discrepancies when making payments to SBSCC. In addition, USAID never identified the overpayments and reimbursed IOM for these payments made to SBSCC.

CONCLUSION

Gardez hospital is significantly behind the original schedule for completion. Furthermore, IOM's weak internal controls resulted in overpayments to SBSCC—at least \$507,000—which need to be recovered and returned to the U.S. government. The fact that IOM did not discover that the U.S. government paid \$500 per gallon for diesel fuel and could not provide vendor invoices for the fuel and other items clearly shows that its controls were not sufficient to account for and safeguard U.S. taxpayers' money. Similarly, USAID never identified these overpayments when reimbursing IOM for payments it made to the contractor. A complete financial review of payments IOM made to SBSCC could disclose even more overpayments.

RECOMMENDATIONS

To protect the U.S. government's investment in the Gardez Hospital, we recommend that the USAID Mission Director:

- 1. Seek reimbursement from IOM of the \$507,000 in identified contractor overpayments for diesel fuel and temperature control devices.**
- 2. Conduct a detailed financial audit of costs associated with construction of Gardez Hospital to determine whether there are additional contractor overpayments that need to be returned to the U.S. government.**

AGENCY COMMENTS

In commenting on an earlier draft of this report, USAID noted that it is committed to ensuring the accountability of U.S. government funds. USAID concurred with the recommendation to conduct a detailed financial audit to determine whether there are additional contractor overpayments that need to be returned to the U.S. government, stating that it will conduct a financial audit on or around October 2013, with a target completion date of January 2014. This audit will be part of USAID's financial audit program that it initiated in October 2010, under the Administrator's Accountable Assistance for Afghanistan Initiative, to provide stringent oversight of U.S. government funds expended by USAID implementing partners. As part of this initiative, which includes limiting subcontractors and increasing financial oversight and audits, USAID plans to audit 100 percent of the local incurred costs of USAID implementing partners. According to USAID, its current financial and audit controls allow the mission to routinely identify and take action against unallowable or unsupported costs spent by USAID implementing partners.

With regard to the first recommendation, USAID said that it will modify the scope of the planned financial audit to include a review of the \$507,000 in questioned costs relating to the diesel fuel and the temperature control devices. USAID will take actions, including seeking reimbursement if appropriate, pending the results of that audit.

We commend USAID for its prompt planned action that will resolve the recommendations, and we request that USAID provide us a copy of the completed financial audit report to fully close out the recommendations.

Finally, USAID noted that, in 2011, it revised its guidance for construction contracts such that infrastructure projects going forward will be implemented under a contract. Previously, it was permissible under USAID

⁶ Temperature controls are included in heating, ventilating, and air conditioning systems to help ensure that the system does not overheat or overcool spaces, as variables such as solar loads, occupancy, ambient temperatures, and equipment and lighting loads change throughout the day.

guidance to implement construction under a grant or cooperative agreement, which was the case for the Gardez Hospital. According to USAID, this change in regulation provides the contracting officers and their representatives more control over implementing partners that are providing construction services. Further, it allows for monthly review of financial reporting, instead of quarterly, which is how implementing partners report under assistance instruments (grants or cooperative agreements). While we applaud the greater degree of oversight now being given to construction contracts, we note that the use of grants or cooperative agreements does not necessarily preclude USAID or any other government agency from imposing robust quality assurance and control requirements on its implementing partners.

APPENDIX I - SCOPE AND METHODOLOGY

This report provides the results of SIGAR's inspection of the new Gardez hospital currently under construction. The hospital is located in the town of Gardez, Paktiya province, Afghanistan.

For this inspection, we assessed (1) the extent to which construction had been completed, and (2) whether adequate oversight was being provided to ensure that the terms of the cooperative agreement and contract were being met. To address these objectives, we

- reviewed contract documents, design materials, and geotechnical reports to understand project requirements and contract administration;
- interviewed cognizant U.S. and Afghan officials responsible for the construction project; and
- conducted a physical inspection and photographed the project site to observe the current status of construction.

We conducted work in Kabul, Afghanistan, and at the Gardez hospital construction site from September 2012 through September 2013. We conducted a site visit on November 25, 2012, and performed our work in accordance with the *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency. These standards were established to guide inspection work performed by Offices of Inspectors General. We did not rely on computer-processed data in conducting this inspection. However, we did consider the impact of compliance with laws and fraud risk.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our inspection objectives. This inspection was conducted under the authority of Public Law No. 110-181, as amended; and the Inspector General Act of 1978, as amended.

APPENDIX II - ACKNOWLEDGMENTS

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SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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